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Federal Communications Commission
Office of Secretary

October 15, 1996

Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: CC Docket No. 96-150 (Accounting Safeguards Under the
Telecommunications Act of 1996)

Dear Mr. Caton:

In accordance with Commission rules, please be advised that today Maury Talbot (BellSouth), Sherry Herauf (Pacific Telesis), Tony Alessi (Ameritech), Jerry Asch (Bell Atlantic) and the undersigned, representing SBC Communications, met with Ken Moran, Jose Rodriguez, John Hays, Mark Ehrlich, John Giusti, Kim Yee, Alicia Dunnigan and Warren Firschein of the Federal Communications Commission to discuss the above-referenced docket. Attached is a handout that was provided at the meeting.

Please call me if you have any questions.

Sincerely,

Attachment

cc: Mr. Moran
Mr. Rodriguez
Mr. Hays
Mr. Ehrlich
Mr. Giusti
Ms. Yee
Ms. Dunnigan
Mr. Firschein

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**CC DOCKET NO. 96-150 EX PARTE OF
AMERITECH, BELL ATLANTIC, BELLSOUTH, NYNEX, PACIFIC TELESIS, SBC**

COST ALLOCATION RULES AND AFFILIATE TRANSACTION RULES ARE NOT NECESSARY TO ENSURE JUST AND REASONABLE RATES FOR PRICE CAP LECS WITH NO SHARING

- Commission recognized this in CC Docket No. 93-251 when it proposed to grant ATT relief from Part 32 affiliate transaction rules
- Commission has authority under Section 10 to eliminate these rules
- Competition along with nondiscrimination requirements of the Act and antitrust requirements are sufficient nonstructural safeguards

ALTERNATIVELY, STREAMLINING CURRENT RULES WOULD BEGIN TRANSITION TOWARDS DEREGULATION

- Eliminate asymmetry rule (higher/lower) for asset transfers
- Continue prevailing price, but remove constraints
- Actual usage rather than forecasted usage should become allocator for shared central office equipment and outside plant investment
- Annual Part 64 external audit should be changed to a biennial audit covering one calendar year
- Annual Part 64 external audit should not duplicate work performed in any other audit (external, FCC or Federal/State Joint audits)
- Quantification of CAM changes is no longer necessary for price cap companies

AFFILIATE TRANSACTION RULES SHOULD NOT BECOME MORE BURDENSOME

- Prevailing price meets statutory requirements and should not be replaced by fair market value
- Requiring fair market value study for services would be burdensome and unreliable
 - will be unduly costly to satisfy solely a regulatory requirement (see CC Docket No. 93-251 comments)
 - decreases productivity by increasing input costs with no gain in outputs
 - anticompetitive - causes ILECS to incur costs that are not borne by competitors
- Asymmetry (higher/lower) for service transactions is not required by Act; nondiscrimination complaint process, competition and compliance audit and review are more than sufficient safeguards to insure fair competition

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**SPECIAL COST ALLOCATION RULES FOR INCIDENTAL INTERLATA SERVICES AND OUT-OF-REGION
INTERLATA SERVICES ARE NOT NECESSARY**

- Price caps insures that nonregulated activities are not subsidized by regulated activities (by breaking the link between costs and price)
- It is not necessary to promulgate a new regulated "other" category

**RULES SHOULD ONLY APPLY TO TRANSACTIONS BETWEEN BOCS AND SECTION 272 OR 274 AFFILIATES AND
SHOULD BE CONSISTENT WITH STATUTE**

- Affiliate transaction rules resulting from the Act should only apply to transactions between the BOCs and either the Section 272 or Section 274 affiliate and should not be extended to other affiliate transactions
- Commission's proposed standard (fair market value) does not create arms length transaction between BOC and affiliate, as required by the Act
- Existing standard should be retained

EXOGENOUS CHANGES FOR REALLOCATIONS ARE INAPPROPRIATE

- Reason for Part 61.45 no longer applies and rule (along with supporting ARMIS 495A and 495B reports) should be eliminated
 - intent was to adjust initial price caps for initial forecasting errors
 - those adjustments have been made and rule is no longer appropriate
- Price caps sever link from cost allocation (regulated vs nonregulated) to rates, and reclassification of investment that was never included in initial price cap rates is irrelevant
- Adoption of Total Factor Productivity would already recognize economies of scope from all BOC nonregulated activities and exogenous adjustments for reallocations would be "double counting"
- Telemessaging has always been nonregulated so no reclassification is necessary, and new telemessaging investment was never included in price cap rates

**COMMISSION SHOULD ORDER THAT GAAP ACCOUNTING IS SUFFICIENT FOR IN-REGION INTERLATA
AFFILIATE**

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NARUC AUDIT PROPOSALS EXCEED STATUTORY REQUIREMENTS

- The joint team proposal advanced by NARUC is beyond the intent of Section 272(d)
- The Act stipulates that the independent audit firm, not the Commission nor a Federal/State team conduct the biennial compliance audit
- Selection of independent audit firm should be sole responsibility of BOC
- Requests for Proposal (RFP) or Requests for Quote (RFQ) is not required by the Act, nor should it be subject to regulatory review
- Per Sections 272(d)(2) and (3), the Act requires results (including access to support documentation) of biennial compliance audit be made available to Commission and to each state in which Section 272 services are provided
- Only final audit report can be made available to the public by a Commission
- The Act contemplates one report, not separate audit reports for each individual Section 272 service or affiliate
- Section 274(b)(8) compliance review does not provide for any federal-state regulatory participation